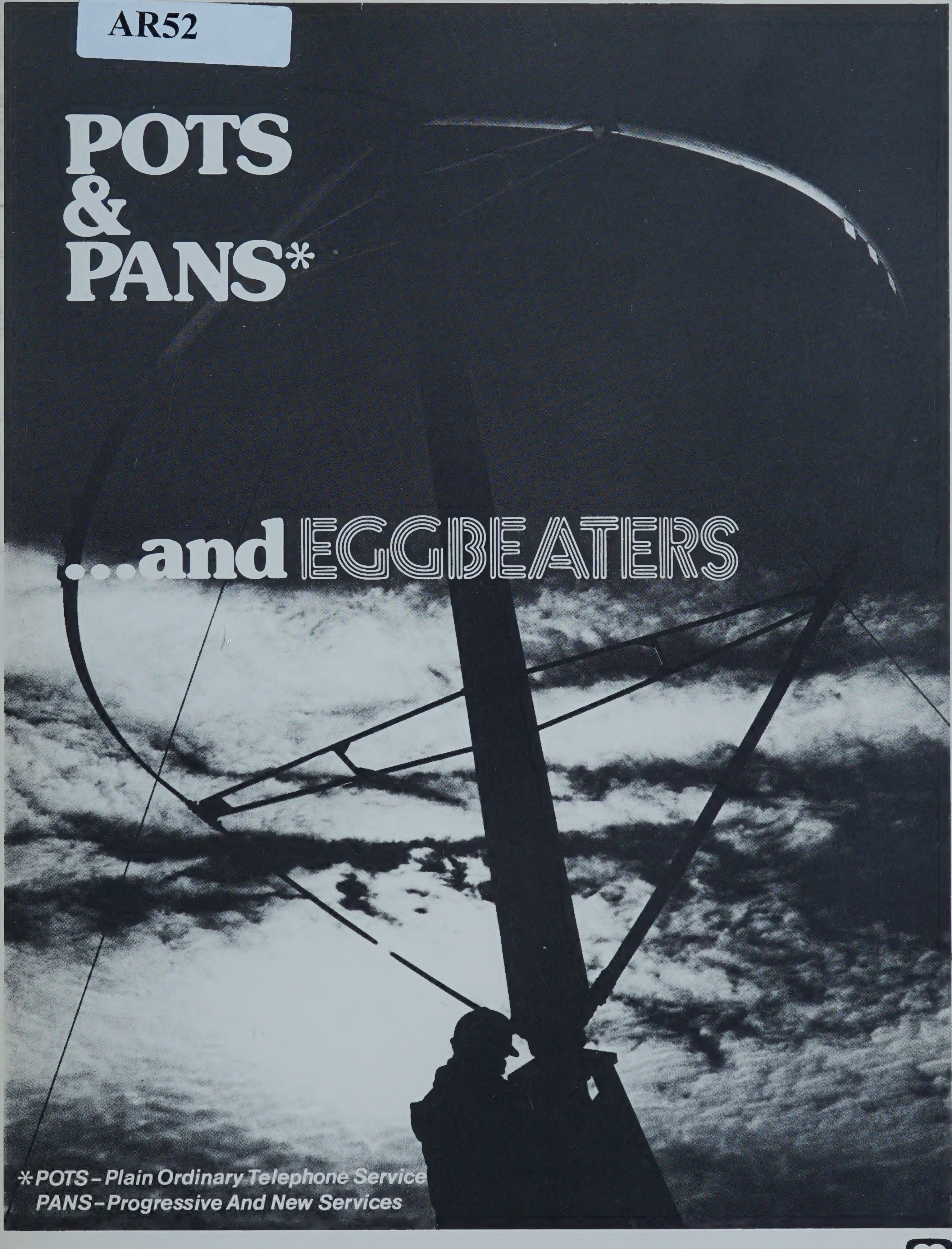
POTS & PANS* ...and EGGBEATERS



*POTS – Plain Ordinary Telephone Service
PANS – Progressive And New Services

the Annual Report of Maritime Telegraph & Telephone Co., Ltd., for 1976

1976 Annual Report

of the Directors to the Shareholders of Maritime Telegraph & Telephone Company, Limited

Incorporated under the laws of the Province of Nova Scotia

Head Office 1520 Hollis Street
P.O. Box 880, Halifax, Nova Scotia
Canada B3J 2W3
Telephone — (902) 424-4541

STOCK TRANSFER OFFICES

Maritime Telegraph and Telephone Company, Limited, 1520 Hollis Street, Halifax, Nova Scotia (common shares 7.0% preferred shares 7.10% preferred shares 8.60% preferred shares and 9.40% preferred shares)

Common shares, 7.10%, 8.60% and 9.40% Preferred can also be transferred at the offices of Canada Permanent Trust at the following locations:

600 Dorchester Blvd. West
Montreal 101, Quebec

20 Eglinton Ave. West
Toronto 1, Ontario

433 Portage Avenue
Winnipeg, Manitoba

1778 Scarth Street
Regina, Saskatchewan

315 Eighth Avenue, S.W.
Calgary, Alberta

701 West Georgia Street
Vancouver, British Columbia

STOCK REGISTRAR

Maritime Telegraph and Telephone Company, Limited, 1520 Hollis Street, Halifax, Nova Scotia is the Registrar for 7.0% Preferred.

Canada Permanent Trust Company, at its offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver, is the Registrar of Common shares, 7.10%, 8.60% and 9.40% Preferred shares of the capital stock of the Company.

Common Shares, 7.10%, 8.60% and 9.40% preferred shares listed

Montreal Stock Exchange
Toronto Stock Exchange

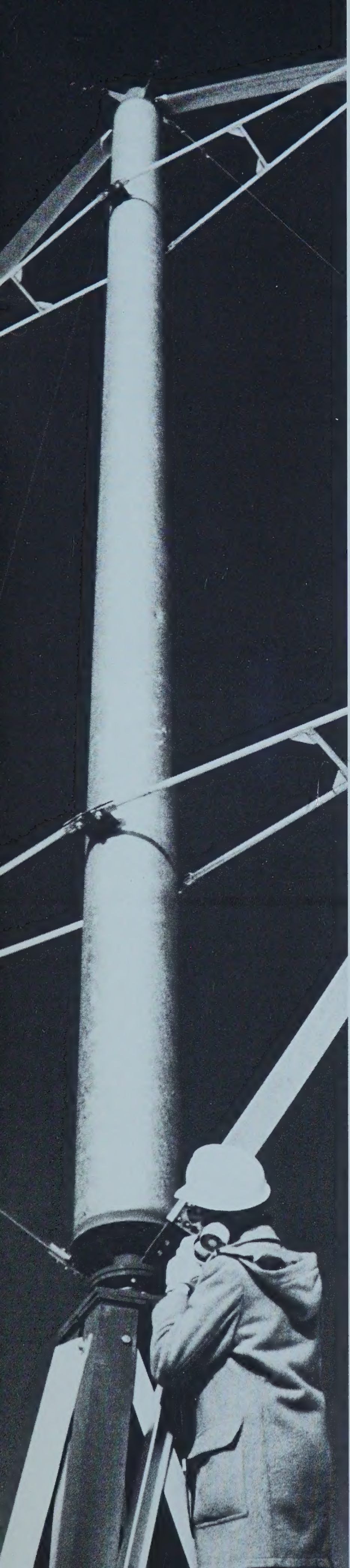
Valuation Day Prices
(December 22, 1971)

Common Shares	*$22.13*
7% Preferred Shares	*$ 9.63*

The 1976 Annual Report is a summary of the operations of the Company in its 67th year of serving Nova Scotia. It is prepared for those who have invested in our Company, for those who are interested in the Company's performance and for our employees.

NOTICE OF ANNUAL MEETING

The annual general meeting of the shareholders of Maritime Telegraph and Telephone Company, Limited will be held at the Head Office of the Company, 1520 Hollis Street, Halifax, N.S. on Tuesday, the 22nd day of March, 1977, at 11:30 o'clock in the forenoon.



In the ten year $364 million investment program just completed throughout the length and breadth of Nova Scotia, Plain Ordinary Telephone Service — POTS — has meant the addition of 187,855 new phones on top of the 227,270 we started with. In that 120 month period, six "in" and "out" orders were worked for every phone gained — an astounding total of well over a million individual jobs. As the basic network of lines, poles, exchange switching centres, buried cable and microwave networks grew by leaps and bounds, so did its use. Just over 6.8 billion telephone calls were handled, of which nearly 204,000,000 were long distance.

But basic service was only the start. Progressive And New Services — PANS — went on apace. Facilities for low-priced direct distance calling grew, so that by the end of 1976 every single MT&T phone in all 151 exchanges could be dialed to any of close to 160 million North American phones throughout Nova Scotia, across Canada, and in the United States, Mexico and off-shore islands. All of MT&T's 415,125 phones became dial-operated, eight out of every ten Nova Scotia communities received free long distance calling to neighboring exchanges, 128 rural telephone company systems became part of MT&T's province-wide system. Withal, the lexicon of telecommunications grew — Datacom, Dataroute, Packet Switching, TWX, and an alphabet of software control devices, computer communications and terminal equipment.

Perhaps nowhere can the effectiveness of POTS and PANS services, and their efficient delivery, be more graphically shown than on Pictou Island. On this five mile seamount within sight of Nova Scotia's north shore, a unique Canadian-designed "eggbeater" wind machine powers a new MT&T communications system (left, and on cover). This has brought modern dial phones and continent-wide Direct Distance Dialing to three dozen hardy folk who still drink water from wells, read by candle-light or oil lamp, and wrestle their livelihood from the surrounding sea.■

PRESIDENT'S REVIEW

"more than a billion calls . . ."

". . . final year of the all-dial, all-DDD . . . program"

It's probably true that the kitchen-like folksiness of "POTS" and "PANS" became part of the jargon of telephone people in recent decades because this seemed somehow to capture in a single catchphrase the essence of what they were about.

The demand for basic, workmanlike and effective communications services seemed then — as now — never ending, and growing. Yet the array of new kinds of services, of plans and configurations more and more responsive to customers' needs and expectations, was (and is) expanding.

Thus the labels served two purposes: To define in easy and general terms the long-range mission of communications enterprises like MT&T, and to focus sharply on the changing everyday needs of its customers.

The year 1976 epitomized this. Despite the economic slowdown, the built-up demand from 1975's nine-week work stoppage saw our phones in service grow by nearly six per cent in 1976. That was the fourth highest growth period in our history, with a gain of nearly 23,000 phones.

Similarly, calling volumes grew. For the first time, more than a billion calls were handled — largest volume to date — and nearly 32 million long distance calls were placed, also a record.

This was also the final year of the all-dial, all-DDD phase of our program of improved community phone services, details of which are reported in the following pages.

This growth and service improvement program (as well as the replacement of worn out equipment) required a capital investment of $63 million, among the highest levels of expenditures in recent years.

More than half of this amount had to be derived from external capital sources. Following the issue and sale of First Mortgage bonds early in the year, the Company in mid-Summer sold 1,000,000 common shares, the first common equity transaction since the late 1960's.

The 1976 rate of return on average invested capital of 9.8 per cent was an increase from the previous year's return of 8.9 per cent; similarly return on average common equity of 11.3 per cent was up from 9.5 per cent in 1975. Earnings per average common share were $2.27 compared to $1.89 for the previous year.

Earnings forecasts for 1977 however, made it clear the existing rate structure — established in December, 1975 — would not sustain the ongoing capital expenditure programs. In late January, therefore, the Company submitted an application to the Nova Scotia Board of Commissioners of Public Utilities for a wide range of rate changes whose effect would be to increase 1977 revenues by approximately 9.8 per cent.

The new rates would ensure successful financing of the Company's wide-ranging $125.2 million capital investment program for 1977 and 1978; that program's goals, though not as dramatic as the all-dial, all-DDD programs, are nevertheless equally demanding.

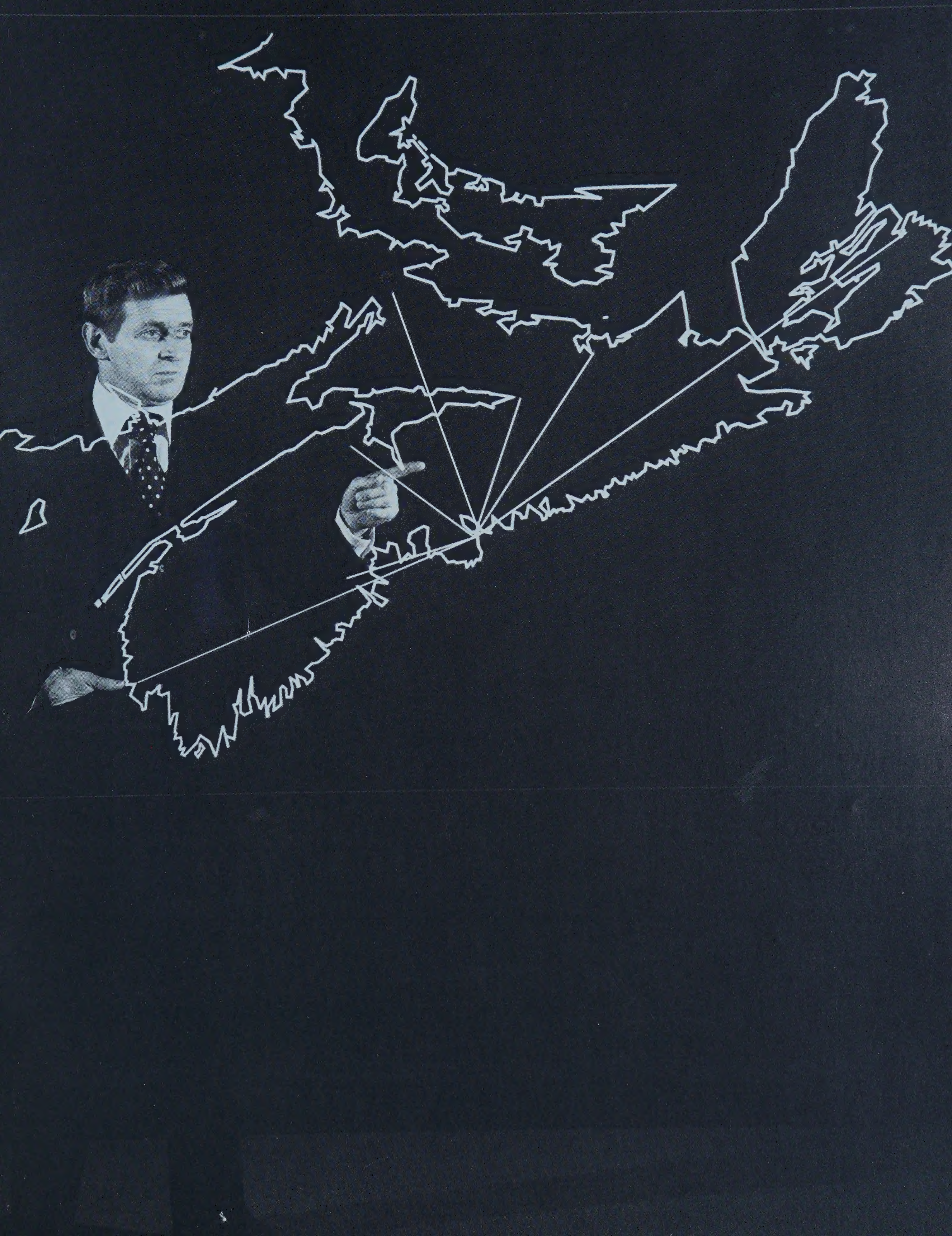
They include the anticipated demand for connection of some 37,000 additional phones to the network, a 15 per cent increase in long distance calling, elimination of long distance charges between 14 pairs of exchanges, reduction or elimination of mileage charges for thousands of phones in 23 areas, and a major drive to reduce rural "line fills" in 66 exchanges to a Province-wide average of four, or fewer.

Struan Robertson

President
& Chief Executive Officer

February 7, 1977

Struan Robertson, President, behind plexiglass map showing new Nova Scotia Dat-o-net routes linking major provincial urban centres to Halifax for in-province computer data transmission.



GROWING, EXPANDING CUSTOMER SERVICES

". . . growth reflected the growing population"

"nearly nine orders . . . worked for each additional telephone"

Growth

Total number of telephones in service throughout Nova Scotia grew by 22,684 during 1976. This was a gain of 5.8 per cent — fourth highest in our history — and brought the year-end total to 415,125.

In one way, this growth reflected the growing population of the Province — now well over 800,000 after remaining relatively static in recent decades. In the 12 months just ended, we provided phone service to 12,651 residence units in homes and apartments; as well, we installed 5,860 new residence extensions.

The total of the new residence services, and the connection of 4,173 additional business services, included a variety of additional "vertical services" — 4,633 Contempra sets, 7,789 phones of all kinds in various colors, and 5,926 Touch Tone services.

Some idea of the significant effect these network additions had on the workload of those responsible — from the initial service request relayed to the Service Representative, the establishment of records and reporting procedures (including the prior canvassing of demand, engineering design of expanded plant, switching and transmission facilities) to the final installation — can be seen in the fact that some 201,000 work orders were completed.

Of these, more than 89,000 were removals of services, and nearly 112,000 for installations in other premises — or nearly nine orders recorded and worked for each additional telephone added to the network.

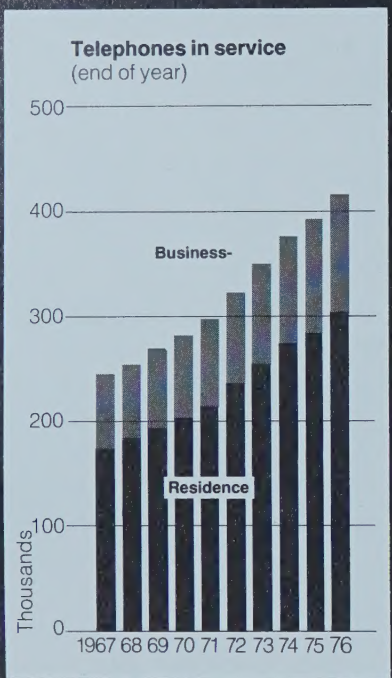
Ten years ago there was a total of 227,270 phones in service, and the proportion of residences with service stood at 82.4 per cent. Overall, for every 100 persons there were 30.8 phones.

At year end, the 415,125 total included a residence development of 98.4 percent of all households; and the proportion per 100 population stood at 50. Nationally, the average is 57.

Leftover phone books still have a use. Here at Canadian Keyes Fibre plant at Hantsport they're pulped, treated and converted into egg cartons by the thousands.

(Far right)
More than one hundred MT&T buildings have no furnaces, instead rely on energy-saving "heat pumps" — these extract heat from surrounding air (see pipes), pumping warm gas to compressors inside where gas is liquified, heat is given off. Process is reversed for summer cooling.


"31.7 million long distance messages, a record to date"



"the last of 25 exchanges in 1976 to be converted (to dial) . . ."

Calling

For the first time in our 66-year history, the annual volume of telephone calls placed by Nova Scotians exceeded the billion-mark. Of these, there were 31.7 million long distance messages, also a record to date.

This growing volume of long distance calling — an increase of 5.9 per cent over a year ago — showed some dramatic changes in its nature, the result of pricing differentials among the three classes of calls (direct-dialed, operator-assisted and person-to-person), the widening availability of Direct Distance Dial service, and early evening and overnight price discounts.

At year end, more than 79,000 telephones had been added to the Province-wide DDD network — making DDD available to every MT&T phone in Nova Scotia — and, in the case of residence long distance calling, well over 90 per cent of calls were DDD.

Business, government and other institutional calling, however, did not exhibit the same high levels of dial-it-yourself long distance — perhaps by the very nature of the callers' requirements, such as credit card calling, person-to-person and special billing requirements. Overall, however, both institutional and residence calling rose to more than 80 percent DDD, an increase from 11 percent a decade ago.

Improved services

Two of the major thrusts of the Company's long-term service improvement program — providing dial service to all MT&T phones and connecting each and every phone to the North American Direct Distance Dial network — culminated in Gabarus at the close of the year.

There, on December 18, the last of 25 exchanges in 1976 to be converted received automatic dial service. The year-long program had commenced January 24 in the communities of Sandy Cove and Freeport, and with the exception of April, May and August, dial conversions were completed every month. One exchange — Kemptown — was merged with the Truro exchange in July. The Company total is now 151 exchanges.

For a number of these exchanges — and others already receiving dial service — Extended Area Service was provided. EAS, or the elimination of long distance charges for calls between neighboring communities, was instituted between Mabou and Inverness, Port Hood and Mabou, Port Dufferin and Sheet Harbor, Port Dufferin and Ecum Secum, Halifax and St. Margarets, Halifax and French Village, and between Noel and Kennetcook.

New and efficient "stored program" dial switching centre for Spryfield area in Halifax, placed in service early in the year, is constantly monitored by trouble-shooters like Don Baugild.

". . . 51 exchanges were equipped (with DDD) in 1976"

"specially coded . . . pocket-sized (fire) alarms"

For those exchanges receiving dial service, and for many others throughout the Western region — including the Annapolis Valley — the addition of DDD service meant MT&T's final 51 exchanges were equipped with this facility in 1976. As noted, the proportion of MT&T phones with DDD was 100 per cent at year end.

Shifting and changing concentrations in population brought about additional service improvements in 20 exchanges. These were installations of additional lines and cables to enable the basic or core calling area to be enlarged, and surrounding areas to have monthly mileage charges either reduced or eliminated altogether.

Finally, 27 independent rural telephone companies which had been connected to the MT&T network were absorbed into the Company system. Some of these were already providing dial service to their customers, but most had manually-operated systems. Thus their inclusion by MT&T required heavy investments in new plant, automatic switching centres, and dial phones.

Assumption of the service responsibilities of these rural companies was at the request of their owners and customers, and with the approval of the Nova Scotia Board of Commissioners of Public Utilities.

Marketing of New Services

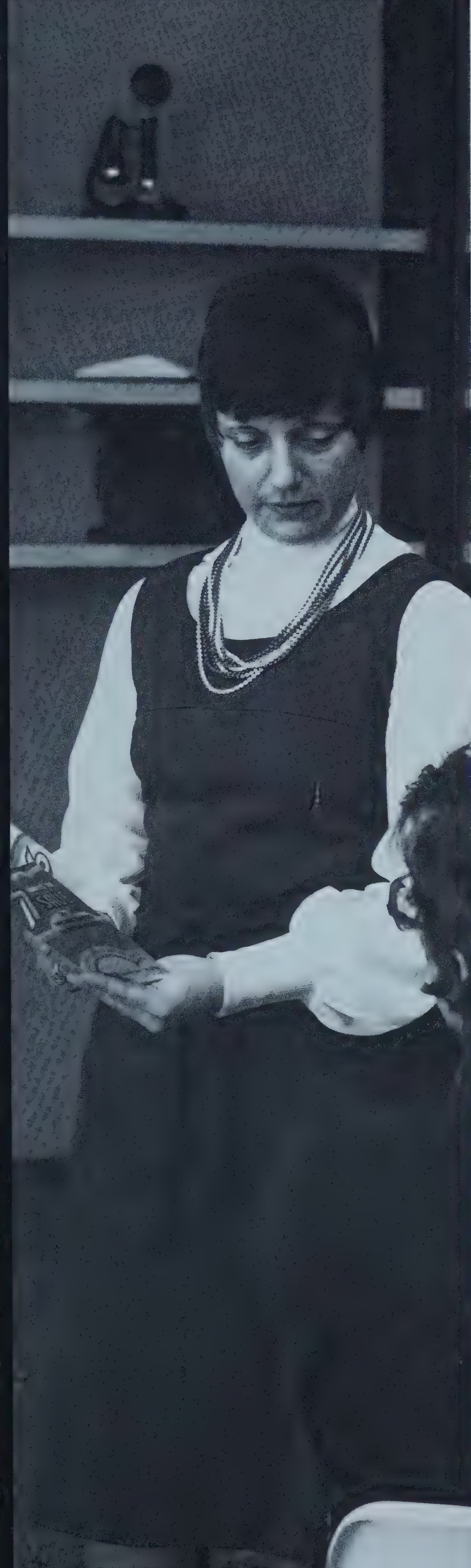
Additional telecommunication services, and new ways to utilize existing services, were introduced to customers during the year.

Virtually every single Nova Scotia community has volunteers serving its fire department — and the need to summon firemen quickly has traditionally been met by using bells, sirens or air horns. In New Glasgow, the 40-member department enthusiastically responded to MT&T's new approach, the use of specially coded radio signals and pocket-size "alarms".

Unlike most individual pocket paging systems, the New Glasgow system uses a common paging code. This is manually encoded at the firehall, and each of the 40 paging devices emits a common voice signal, anywhere in the area, night or day. Local news coverage lauded the new approach for both its efficiency, and the reduction in noise-pollution during, for example, sleeping hours.

Customers can save, too — as widespread distribution of specially-prepared booklet, "Seven Ways to Save", demonstrated. Bridgewater Phone Store teller Judy Tanner talks to customers.

(Far right) Happy volunteer firemen, with New Glasgow fire chief John Allan in foreground, show off new pocket-size "alarms" they carry at all times. These alert the volunteers on 24-hour a day basis, replacing community-wide fire sirens.




GLASGOW

"three new Datapac access methods"

"new facilities for . . . mobile telephone network"

"Dat-o-net . . . was introduced"

Nova Scotia Business, government and institutional users can now transmit data via Datapac, a "packet switching" method that permits a number of users to share the same data facility and directs their data to a specific point. Datapac is available with three new Datapac access methods introduced during 1976 — 1,000, 3,000 and 3,101 — offering varying speeds and classes of service according to customer needs. The Canadian proposed international protocol on Datapac, SNAP or "switched network access protocol", has been accepted as the standard protocol linking international packet-switched networks.

Especially for small business users, a new network of Community Repeater Service mobile radio links was marketed in 1976. This offers wide coverage, on a shared frequency basis, to multiple users requiring low-budget radio communications. Initial introduction was in the areas of Halifax and Sydney.

Business customers also benefited from additions to the mobile telephone network. New facilities for this service were installed in both Bridgewater and Port Hawkesbury, and an additional channel in Sydney. Those additions augmented the existing Halifax-Kentville-Truro-Amherst-New Glasgow-Sydney coverage.

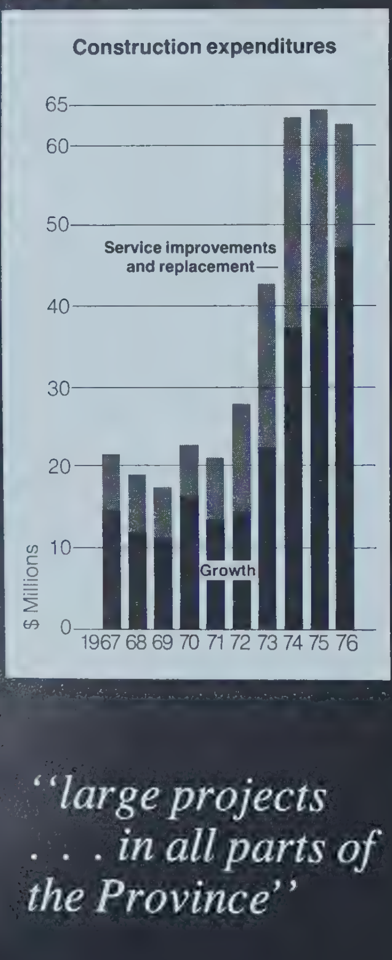
Additional marketing emphasis was placed on the advantages of conference calls — a method of jointly linking phones in widespread communities — to reduce or eliminate travel costs. Termed Teleconferencing, the project was received with favorable response — an example being trade associations — where "telephone meetings" maintain vital communications links.

Dat-o-net, a uniquely-designed Nova Scotia network for businesses and institutions transmitting computer data, was introduced for customers on a "flat rate" use basis. This is a point-to-point network linking Bridgewater, Yarmouth, Kentville, Truro, Amherst, New Glasgow and Sydney to metropolitan Halifax-Dartmouth. It has the capacity to transmit data at various speeds — 300, 1,200, 2,000, 2,400 and 4,800 BPS, or "bits per second". As a rule of thumb, bits-per-second can approximate words-per-minute.

Yes, he's holding a meeting — by telephone. "Conference Calling" is demonstrated by Company market planner William Bishop. Promoted actively in 1976, meeting-by-conference-calls earned enthusiastic acceptance by groups seeking to avoid travel costs to meetings, yet still ensure two-way discussions.

TELECOMMUNICATIONS NETWORK ENLARGED

"additional capacity . . . to meet the increased demand"



"large projects . . . in all parts of the Province"

Growth, improvement, replacement

Broadly classified, the $63 million 1976 capital expenditures program for MT&T can be broken down into growth, service improvement and replacement costs.

By far the major portion was to build on to the existing system the additional capacity (in distribution lines, telephones, local and long distance switching and long distance transmission facilities) to meet the increased demand on the network — in other words to "grow".

This required nearly $41 million in the past year. It included, for example, just over $4 million for additional central office equipment in the Sydney area, three quarters of a million dollars in distribution cable facilities in Antigonish County, more than $200,000 in additional long distance facilities in Yarmouth (part of $1.2 million in capital expenditures in Yarmouth County itself) $648,000 in Direct Distance Dial facilities in Amherst and $430,000 in DDD facilities in Bridgewater.

The service improvement portion — provision of DDD, dial and related projects — totalled just over $15 million for the year. This too, was widespread and included — to single out just a few — more than $2.5 million in improvements in Cape Breton Island, nearly $1 million in the Pictou area, $700,000 in Lunenburg and vicinity, and more than half a million dollars in Shelburne and Yarmouth counties.

Finally, close to $7 million was expended to replace and renew facilities.

Major projects

A variety of large projects proceeded in all parts of the Province, most notable of which was completion of the $12 million Annapolis Valley DDD conversion. This included completion in late Spring of the $6.8 million "stored program" Kentville switching centre — capable of handling both local and long distance calling, and incorporating a computer memory system for both increased reliability and flexibility.

Also in the southwestern area, work was completed on a replacement of exchange centre facilities in Lunenburg. There, the first of a new generation of Canadian-built centres — also incorporating software controlled circuitry for both reliability and flexibility — was installed in December at a cost of more than $800,000. After testing, it was scheduled to be placed in service in mid-January.

Elsewhere in the Province, other major projects included completion of a $4.6 million addition to long distance switching equipment at Halifax's North Street long distance centre; a $3 million enlargement of Centrex facilities at the Halifax Bishop centre; and close to $2 million in expenditures to enlarge the capacity, along with related plant facilities, of the suburban Rockingham centre.

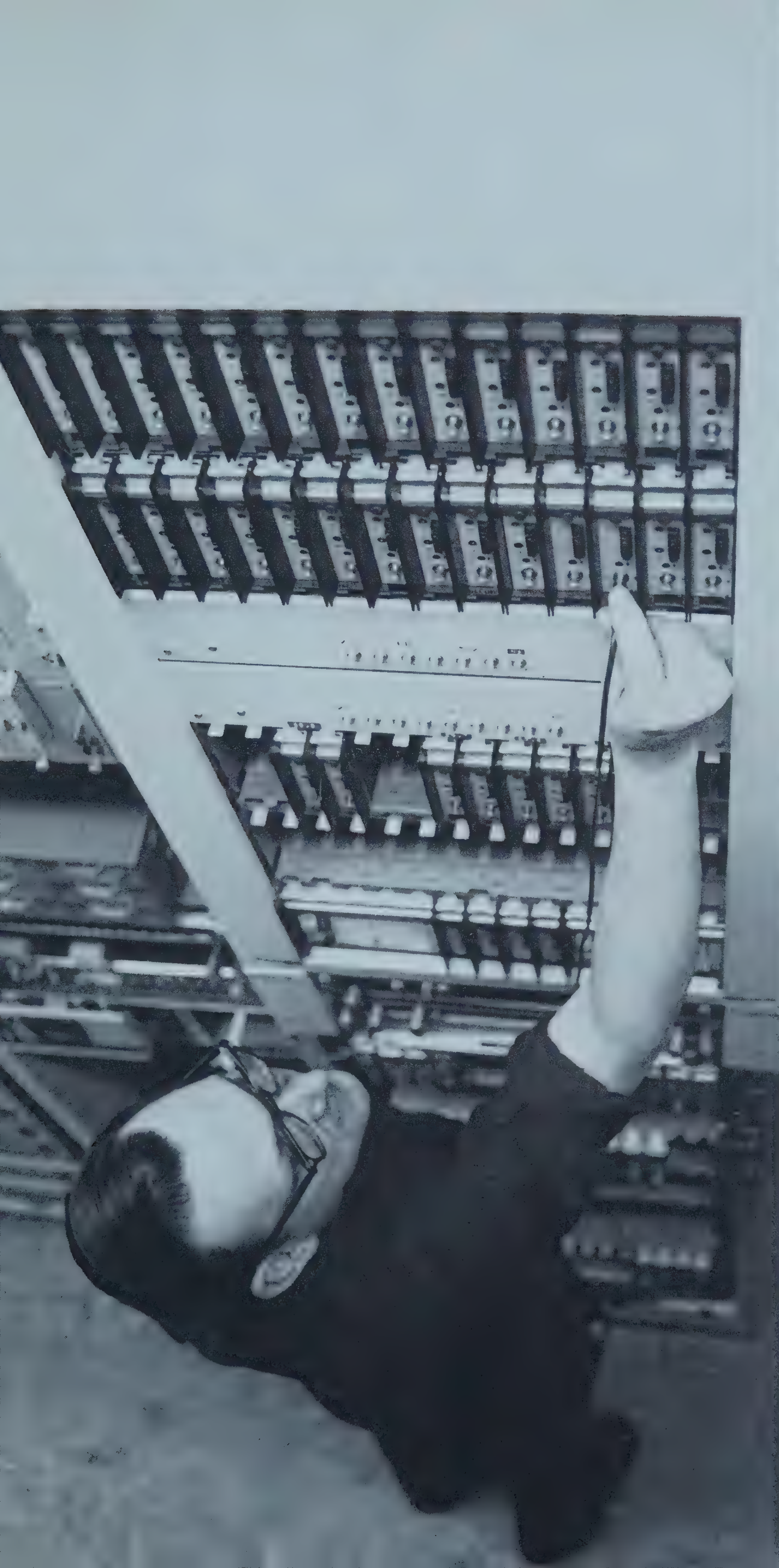
In Truro, a major program to bury conduit and cable was completed at a cost of close to $400,000, and an additional $314,000 project added automatic number identification to the DDD service. In nearby Elmsdale, additional feeder cable required the expenditure of $257,000.

From Halifax to the Nova Scotia border, additional microwave circuitry to handle increased volumes of long distance traffic required the expenditure of $377,000. And in Sydney and area, two major projects — a $1.1 million extension of "cross-bar" switching facilities scheduled for 1977, and installation of a $973,000 underground conduit — were undertaken to meet increased volumes of both local and long distance calling.

In the Canso Strait area, a $390,000 project was completed for community cable television facilities there and in Sydney.

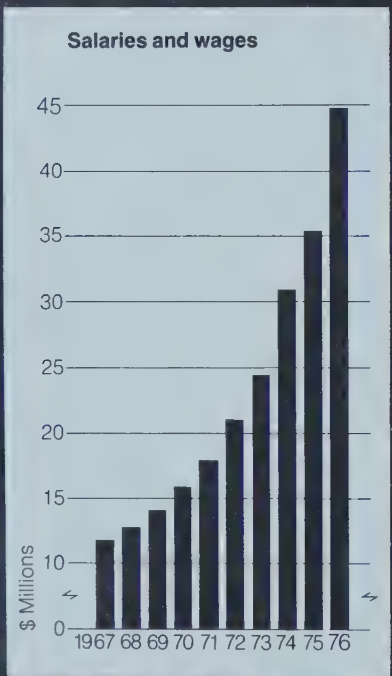
Other projects included completion of a $390,000 microwave link between Melrose and Beaver Harbor, site of the North American link of the recently completed trans Atlantic undersea cable, Cantat II, with some 1800 voice channels; and additional digital carrier facilities throughout the Eastern Shore area, costing $220,000, to meet requirements for both growth in demand and dial conversions in a number of communities.

MT&T Central Office technician Roger Spidle checks solid state controls for new Digby-Kentville microwave. First of a new generation of electronic-memory devices, controls yield greater reliability and flexibility.



THE ORGANIZATION & ITS PEOPLE

"telephone people are 'your neighbors serving you' . . ."



"employee relations at . . . higher levels"

Employees

In our report to shareholders a year ago, reference was made to the Company's need to demonstrate its role in the Province's life as an employer of skilled and dedicated men and women.

Simple "bigness" in itself, reflected in MT&T's economic role, gave only part of the picture. But telephone people do not sell a product. They provide a service. And in doing so, they live and work in literally hundreds of communities.

They are — as we have sought to portray this past year — "your neighbors, serving you". We have done this where the occasion warranted at the series of community "Open Houses" held to mark the inauguration of improved community telephone services.

As well, our directory covers featured a selection from all districts, and from all ranks within the Company, of telephone men and women. And a wide range of facilities tours, service advertisements and related customer communications underscored this theme.

Finally, a series of recruitment advertisements singled out many telephone people, depicting their career and personal lives, and inviting applications.

It is noteworthy that this has had positive effects internally, as well as outside the organization. Employee relations — as evidenced by a growing array of recreational and sports activities, steady progress in increased productivity, commitment to new and higher service and sales goals — are at gratifyingly higher levels than ever before.

Statistically, this is reflected in a number of ways. The number of employees — 1,635 women and 1,812 men — remained at year end at almost the same level as a year ago, despite the larger volumes of both local and long distance calling, and the addition of 23,000 new phones.

While the corporate investment per employee rose from $107,447 in 1975 to $123,937 this year, the number of telephones served per employee rose, from 111.3 in 1975 to 120.4 in 1976, or 8.2 per cent.

Wages and salaries, at $44.4 million, increased by 25.8 per cent over the year before. In addition, benefit and welfare costs (about 16.2 per cent of the total) were $7.2 million.

These benefits included $5 million paid by the Company to the non-contributory pension fund; $1.1 million for sickness, accident, group insurance benefits, and supplementary hospital insurance; $471,000 to the Canada Pension Plan; and $632,000 to Unemployment Insurance.

Company's directory covers featured smiling faces representative of MT&T employees in all districts and departments with the banner, "Your neighbors serving you".


your neighbors serving you

''staff and support functions (re-grouped)''

Organization changes

In recent years, the need has increased to consolidate some of the Company-wide staff and support functions being performed within large, operating departments. This consolidation and re-grouping, while not requiring additional personnel, has been a means of facilitating the effectiveness of the functions being carried out.

Accordingly in the latter part of the year two new departments — Corporate Development, and General Services — were established.

Responsibility of the former, under General Corporate Development Manager Philip G. Henderson, is to co-ordinate long-range corporate plans to expand service, including rate-making and service improvement plans and their related effects on the Company's future capital plans.

Responsibility of the latter department, under General Services Manager Donald R. Archibald, is to consolidate and direct administrative services on a Company-wide basis, and to manage the requirements for buildings operations, the vehicle fleet, and purchasing supplies.

Before his new posting, Mr. Henderson was General Organization Development Manager. Promoted to replace him was Ernest C. Hicks, who was General Supervisor of Manpower Development. Before his promotion to General Services Manager, Mr. Archibald was Construction Manager.

Despite the completion of the ten year $364 million all-dial, all-DDD program, it would be misleading to look at the year just past as ''the end of an era''. More accurately it can be said that, as in the past, the long range purpose of your Company will continue to be the provision of ''POTS'' and ''PANS''. What is changed is the expectations of the growing body of telecommunications customers.

The demand for additional basic services is unrelenting, in Nova Scotia as elsewhere. And the need remains for newer and improved services, for innovative communications answers to society's changing ways. The men and women of MT&T form a taut and efficient organization whose effectiveness will be judged by their responsiveness to these needs.

For the Board of Directors,

President
& Chief Executive Officer

February 21, 1977

Rising energy costs will be a key factor in proving out the economic and technical feasibility of windpowered switching centres in dozens of locations in Nova Scotia. Yearlong study just completed is being examined by Chief Engineer G. H. Geldert, District Outside Plant Engineer and Buildings Manager D. D. Johnston and Buildings Supervising Engineer S. W. March.


ALTERNATECH

THE FINANCIAL REPORT

review of 1976

Earnings

Financial results for the year show a continued improvement with earnings per average common share of $2.27, compared to $1.89 in 1975, despite the significant increase in outstanding shares resulting from the common stock issue in August. The rate of return on average invested capital rose to 9.8 per cent from 8.9 per cent the year before; and the return on average common equity was 11.3 per cent, up from 9.5 per cent in 1975.

Operating revenues & expenses

Operating revenues for 1976 were $111,695,000, compared to $90,621,000 for 1975, a 23.3 per cent increase. This resulted largely from a 5.9 per cent increase in long distance calling, a 5.8 per cent increase in the number of telephones in service, and revised tariff rates introduced in December of 1975.

Operating expenses for the year were $74,754,000, compared to $62,484,000 in 1975, a 19.6 per cent increase. Notably, depreciation expense — the largest single component — was $21,139,000; and maintenance expense related to the ongoing operation and upkeep of the system was $18,535,000.

Financing

The Company does not generate sufficient funds from internal sources to finance its capital expenditure programs. Accordingly, the Company issued and sold $25 million of 10¾ per cent Series W First Mortgage bonds in March, and $17.5 million of common stock in August; this was the first public common share issue since 1967, and consisted of 1,000,000 shares at $17.50 per share.

In 1977

The Company will require an estimated $57.4 million in 1977 to meet the demand for added distribution lines, telephones, local and long distance switching and long distance transmission facilities, as well as for a wide range of service improvements. Despite the improved overall earnings picture for 1976, there was a continuing downward trend in those earnings during the latter part of the year. If allowed to continue, this trend would result in 1977 earnings which would be both inadequate and below the level necessary to support the Company's capital expenditure program.

Therefore, the Company has filed an application before the Nova Scotia Board of Commissioners of Public Utilities for approval to increase the rates it charges for a wide variety of services. The new rates, requested to be effective in mid-April, would mean revenues for 1977 would increase by an additional $11.8 million, or 9.8 per cent.

The statements

During 1976, the Company decided not to maintain its majority ownership in The Island Telephone Company Limited when that company issued and sold additional common shares. As a result, the financial statements in this report are presented on an "equity" basis.

in brief

	1976	1975
Earnings Per Common Share	**$ 2.27**	$ 1.89
Dividends Per Common Share	**$ 1.60**	$ 1.30
Return on Average Common Equity	**11.3%**	9.5%
Return on Average Invested Capital	**9.8%**	8.9%
Equity Per Common Share, December 31	**$ 19.79**	$ 19.98
Construction Program Expenditures (millions)	**$ 62.6**	$ 64.5
Telephone Plant Per Telephone, December 31	**$ 1,029**	$ 965
Telephones in Service, December 31	**415,125**	392,441
Long-term Debt % Total Invested Capital, December 31	**52.6%**	55.6%
Employees, December 31	**3,447**	3,526
Salaries and Wages (millions)	**$ 44.4**	$ 35.3
Average Common Shares (thousands)	**4,574**	4,110

AUDITORS' REPORT

To the Shareholders of Maritime Telegraph
and Telephone Company, Limited:

We have examined the financial position statement of Maritime Telegraph and Telephone Company, Limited as at December 31, 1976 and the statements of income, retained earnings, and sources of funds used for construction for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the sources of its funds used for construction for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.
Chartered Accountants

Halifax, Canada
January 31, 1977

INCOME STATEMENT
For the Year Ended December 31

	Thousands of Dollars 1976	1975
	$	$
OPERATING REVENUES		
Local service	50,678	40,610
Long distance service	58,376	47,741
Other	3,560	2,919
Uncollectible	*919*	*649*
	111,695	90,621
OPERATING EXPENSES		
Maintenance	18,535	14,120
Depreciation (Note 1 (b))	21,139	18,108
Traffic	8,468	8,998
Commercial and marketing	6,890	5,089
Administrative	8,755	6,422
Pensions and other employee benefits	4,731	3,791
Other	3,153	3,501
Taxes other than income taxes	3,083	2,455
	74,754	62,484
	36,941	28,137
Other income (Note 2)	1,760	2,249
	38,701	30,386
INTEREST		
Bond interest	13,124	10,189
Other (Note 3)	932	1,488
	14,056	11,677
	24,645	18,709
Income taxes	11,224	8,141
NET INCOME	13,421	10,568
Preferred dividends	3,043	2,789
NET INCOME APPLICABLE TO COMMON SHARES	10,378	7,779
Earnings per common share:	2.27	1.89

RETAINED EARNINGS STATEMENT
For the Year Ended December 31

	Thousands of Dollars 1976	1975
	$	$
RETAINED EARNINGS, beginning of year	26,308	24,310
ADDITIONS:		
Net income	13,421	10,568
Other (Note 9)	51	78
	13,472	10,646
DEDUCTIONS:		
Preferred dividends	3,043	2,789
Common dividends	7,517	5,343
Commission and expenses of issuing capital stock	767	516
	11,327	8,648
RETAINED EARNINGS, end of year	28,453	26,308

D. S. Inkpen
Comptroller

FINANCIAL POSITION STATEMENT
As at December 31

ASSETS

	Thousands of Dollars 1976	1975
	$	$
TELEPHONE PLANT (Note 1 (b))		
Depreciable telephone plant in service	400,384	339,038
Other telephone plant (Note 4)	19,253	33,553
	419,637	372,591
Less accumulated depreciation	95,453	85,149
	324,184	287,442
Materials inventory	7,574	6,266
	331,758	293,708
INVESTMENTS		
Equity in shares of other companies (Note 5)	4,314	3,596
Other investments (Note 6)	835	834
	5,149	4,430
CURRENT ASSETS		
Cash	78	3,702
Accounts receivable	16,996	17,241
Prepayments	1,449	1,271
	18,523	22,214
DEFERRED CHARGES		
Unamortized long-term debt expenses	2,525	2,097
Other deferred charges	1,200	850
	3,725	2,947
	359,155	323,299

On behalf of the Board:

Struan Robertson
Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of Dollars	
	1976	1975
	$	$
SHAREHOLDERS' EQUITY		
Common stock (Note 7)	**53,038**	41,973
Premium on common stock (Note 8)	**23,456**	15,588
Retained earnings	**28,453**	26,308
Total common equity	**104,947**	83,869
Preferred stock (Note 7)	**35,079**	36,308
	140,026	120,177
LONG-TERM DEBT (Note 10)		
First mortgage bonds	**150,864**	127,864
Bank and other notes	**4,370**	22,300
	155,234	150,164
CURRENT LIABILITIES		
Accounts payable	**10,045**	8,526
Income taxes accrued	**1,524**	905
Interest accrued	**2,315**	1,561
Dividends payable	**2,829**	2,116
Other current liabilities	**534**	604
	17,247	13,712
DEFERRED CREDITS		
Income taxes (Note 1 (c))	**46,522**	39,132
Other deferred credits (Note 11)	**126**	114
	46,648	39,246
COMMITMENTS (Note 14)		
	359,155	323,299

G. Archibald
rector

The accompanying notes form an integral part of these financial statements

STATEMENT OF SOURCES OF FUNDS USED FOR CONSTRUCTION

For the Year Ended December 31

	Thousands of Dollars	
	1976	1975
	$	$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	**113,455**	92,870
Less charges requiring working capital (Note 12)	**72,460**	60,078
From operations	**40,995**	32,792
Deferred income taxes, prior years	**—**	123
Total internal	**40,995**	32,915
External —		
Common stock	**17,500**	—
First mortgage bonds	**25,000**	25,000
9.4% preferred stock	**—**	17,500
Bank and other notes	**4,370**	22,300
Employees' stock savings plan (Note 11)	**1,437**	1,085
Decrease in working capital	**7,226**	—
Total external	**55,533**	65,885
Total source of funds	**96,528**	98,800
Funds used for other than construction —		
Investment in shares of other companies (Note 5)	**671**	198
Redemption of first mortgage bonds (Note 10 (a))	**2,000**	11,636
Preferred shares purchased for cancellation (Note 7)	**1,229**	1,298
Repayment of bank and other notes	**22,300**	10,500
Increase in materials inventory	**1,308**	—
Dividends	**10,560**	8,132
Other	**1,532**	1,179
Increase in working capital	**—**	5,255
Total funds used for other than construction	**39,600**	38,198
Total funds provided for construction	**56,928**	60,602
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	**61,200**	63,578
Cost of removing old plant	**1,435**	898
Construction program expenditures	**62,635**	64,476
Less charges not requiring working capital		
— Allowance for funds used during construction	**1,380**	1,858
— Salvage	**3,993**	1,715
— Other	**334**	301
	5,707	3,874
Total funds used for construction	**56,928**	60,602

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies —

(a) Accounting for investment in other companies:
The statements include the accounts of The Island Telephone Company Limited and Maritime Computers Limited on an "equity" basis. See also note 5.

(b) Accounting for telephone plant:

Telephone plant is carried at cost.

Depreciation is charged on a straight-line basis using component rates for classes of plant, determined by a continuing program of engineering studies, as approved from time to time by the Board of Commissioners of Public Utilities for the Province of Nova Scotia. These rates provide for depreciating the assets over their estimated useful service lives and resulted in a composite rate for 1976 of 5.8% (1975, 5.8%).

Materials inventory consists of items which will be used in the construction program.

(c) Income taxes:
Deferred tax accounting has been followed with respect to all timing differences.

(2) Other income — includes the Company's portion of The Island Telephone Company Limited and Maritime Computers Limited net income of $284,000 (1975, $359,000), allowance for funds used during construction of $1,380,000 (1975, $1,858,000), less other income charges.

(3) Other interest — includes amortization of long term debt expenses amounting to $149,000 (1975, $131,000).

(4) Other telephone plant — land, telephone plant under construction and property held for future telephone use.

(5) Equity in shares of other companies —includes equity in The Island Telephone Company Limited and Maritime Computers Limited. During the year the Company purchased 61,000 (37%) of the 165,000 new common shares issued by The Island Telephone Company Limited of Prince Edward Island. The Company's ownership interest in the Island Company was thereby reduced from 52.4 per cent to 48.9 per cent of the common shares in the capital stock of that Company. This decrease in ownership has required a change in presentation of the financial statements from a consolidated basis to an equity basis. For comparative purposes the 1975 consolidated statements have been restated on an equity basis. This restatement has no effect on net income.

(6) Other investments — principally in Telesat Canada. Total investment at cost in these shares is $738,000.

(7) Capital Stock — par value $10.00 per share

		1976	1975
		Shares	Shares
Authorized:		**9,707,873**	9,830,784
Issued:			
Common	— beginning of year	**4,197,370**	4,110,085
	— issued during year for cash (1976, $18,932,609 1975, $1,086,000)	**1,106,452**	87,285
	— end of year	**5,303,822**	4,197,370
Preferred	— 7% cumulative, voting non-redeemable	**150,000**	150,000
	— 7.10% cumulative, non-voting, redeemable*	**825,950**	848,450
	— 8.6% cumulative, non-voting, redeemable**	**921,948**	945,044
	— 9.4% cumulative, non-voting, redeemable***	**1,609,975**	1,687,290
		3,507,873	3,630,784
Total issued		**8,811,695**	7,828,154

By Orders of the Supreme Court of Nova Scotia to December 31, 1976, the reduction of the Company's share capital from $98,307,840 to $97,078,730 was confirmed. This reduction resulted from the purchase for cancellation by the Company to December 31, 1976 of 22,500 — 7.10%, 23,096 — 8.60% and 77,315 — 9.40% cumulative redeemable preferred shares.

* These shares are non-voting unless six quarterly dividends are in arrears. The Company must make all reasonable efforts to purchase for cancellation in the open market 22,500 of such shares in each calendar year on a non-cumulative basis, at a price not exceeding $10.00 per share together with accrued and unpaid dividends, and costs of purchase. The Company may redeem the whole or any part of the outstanding shares at par plus a premium of $0.60 per share, accrued but unpaid dividends, and cost of redemption on or before April 15, 1978. The premium thereafter reduces $0.10 every three years until a minimum premium of $.10 is reached on May 29, 1998. During 1976, 22,500 shares were offered and purchased for cancellation (1975, 22,500).

** These shares are non-voting unless six quarterly dividends are in arrears. The Company must retire, either by redemption or by purchase for cancellation, 30,000 of these shares in each 12 month period ending May 28. The shares will be retired at a price not exceeding $10 per share, together with accrued and unpaid dividends and costs of purchase. The Company may redeem the whole or any part of the outstanding shares at par plus a premium of $0.70 per share, accrued but unpaid dividends, and cost of redemption beginning May 28, 1979. The premium thereafter reduces $0.10 every three years until a minimum premium of $.10 is reached on May 29, 1997. During 1976, 23,096 shares were offered and purchased for cancellation (1975, 44,581).

*** These shares are non-voting unless six quarterly dividends are in arrears. The Company must retire, as part of a cumulative mandatory sinking fund by April 15th of each year beginning with 1976, 70,000 shares at par value plus accrued and unpaid dividends and costs of purchase. The Company may purchase for cancellation the whole, or any part, of the outstanding shares at par plus a premium of $0.70 per share prior to April 15, 1980. Thereafter the Company may redeem or purchase for cancellation the whole, or any part, of the remaining shares outstanding at a premium that decreases $0.10 every three years until a minimum premium of $.10 is reached on April 16, 1998. During 1976, 77,315 shares were offered and purchased for cancellation (1975, 62,710).

(8) Premium on common stock —

	1976	1975
	$	$
Beginning of year	**15,588,000**	15,375,000
On shares issued during year	**7,868,000**	213,000
End of year	**23,456,000**	15,588,000

(9) Retained earnings — other

Contributed surplus of $51,000 (1975, $78,000) arising from the purchase for cancellation of preferred shares has been added to retained earnings during the year.

(10) Long-term debt

(a) First mortgage bonds —

Series	Rate	Maturing	Principal
O	$8^{1}/_{4}$%	June 15, 1977	$ 6,000,000
J	$5^{1}/_{4}$%	September 15, 1978	3,500,000
K	$5^{1}/_{2}$%	November 1, 1980	4,000,000
L	$5^{1}/_{2}$%	June 15, 1983	5,000,000
M	$5^{1}/_{2}$%	May 1, 1985	7,000,000
N	$6^{1}/_{2}$%	March 15, 1987	10,000,000
Q	$9^{1}/_{4}$%	June 1, 1990	1,364,000
R	$8^{3}/_{8}$%	May 1, 1991	12,000,000
T	$8^{3}/_{4}$%	December 15, 1993	20,000,000
S	$8^{5}/_{8}$%	August 1, 1994	12,000,000
U	$10^{3}/_{4}$%	November 1, 1995	20,000,000
V	11 %	June 15, 1996	25,000,000
W	$10^{3}/_{4}$%	March 15, 1997	25,000,000
Total first mortgage bonds			$150,864,000

During the year the Company issued $25,000,000, $10^{3}/_{4}$% First Mortgage Bonds, Series W, maturing March 15, 1997. The proceeds from the issue were used to retire $2,000,000, 3% Series E Bonds which matured July 1, 1976 and to retire bank loans. The balance of the proceeds of the issue were added to the general funds of the Company.

(b) Bank and other notes

Bank demand loan at prime rate	$4,370,000

In order to permit the Company to time its new issues of debt or capital stock most advantageously the Company maintains a substantial bank line of credit and from time to time sells short-term promissory notes. Such short-term credit is replaced in the normal course by longer term financing and currently maturing debt issues are likewise normally refinanced. For this reason the Company does not classify these items as current liabilities.

Likewise the Company does not classify as current assets excess funds received through financing and temporarily invested in short-term investments.

(11) Other deferred credits —

Includes Employees' Stock Savings Plan as follows:

As at December 31, 1975	$ 8,000
Add 1976 contributions, including interest	1,437,000
	1,445,000
Less common stock issued in 1976 to employees under the Plan	1,433,000
As at December 31, 1976	$ 12,000

Generally, shares are issued in December of each year after the completion of twelve months of contributions. The purchase price is equivalent to 80% of the average market price of the stock.

(12) Charges requiring working capital —

	1976	1975
	$	$
Operating expenses, interest and taxes	**100,034,000**	82,302,000
Less charges not requiring working capital		
— Depreciation	**21,139,000**	18,108,000
— Deferred income taxes	**7,390,000**	5,740,000
— Other	**425,000**	383,000
	28,954,000	24,231,000
	71,080,000	58,071,000
Add credits not producing working capital		
— Allowance for funds used during construction	**1,380,000**	1,858,000
— Other	—	149,000
	72,460,000	60,078,000

(13) Pension Fund —

Pension Fund Obligations are accounted for and paid over the estimated future working lifetime of employees of the Company. The contribution to the pension fund for the year ended December 31, 1976 amounted to $5,036,000 (1975, $3,946,000). The actuarial reviews as of December 31, 1975, based on earnings and service to that date, show that all vested benefits are fully funded.

(14) Commitments —

Leases:

(1) The Company leases a substantial number of circuits in the ordinary course of its business for which it pays annual rents of approximately $569,000. The most significant of these leases expires in 1978.

(2) The Company has contracted to lease computer equipment at an annual rental of approximately $467,000, the contract expiring in 1979.

(3) The Company has several agreements with regard to the Telesat Communications Satellite, Anik 1, with respect to circuit leases through the Trans-Canada Telephone System. These agreements call for annual payments of approximately $120,000 and expire in 1978.

(4) The Company has agreed to lease space in Maritime Centre in 1977. This agreement calls for annual rental payments of approximately $1,400,000. The agreement expires in 1997, however the Company has an option to extend the term of the lease to the year 2002.

(15) Anti-Inflation Act —

The Company is subject to the Anti-Inflation Act which provides authority for the imposition of Anti-Inflation restraints from October 14, 1975, and is expected to be in force until December 31, 1978. The Act and the guidelines thereunder control profit margins, prices, dividends and compensation. The Anti-Inflation Act contains special provisions relating to the application of the guidelines to companies whose prices or profit margins are subject to approval by regulatory bodies. The Company is subject to regulation by the Nova Scotia Board of Commissioners of Public Utilities.

Section 4.1 (1) of the Anti-Inflation Act provides that any body that establishes or approves the prices or profit margins of any supplier to whom the guidelines apply shall, in exercising its powers, apply such guidelines as are applicable in the circumstances, modified to such extent, if any, as in the opinion of the body, is necessary to take into account the particular facts of the situation.

Management is satisfied that the Company is complying with the legislation and regulations thereunder.

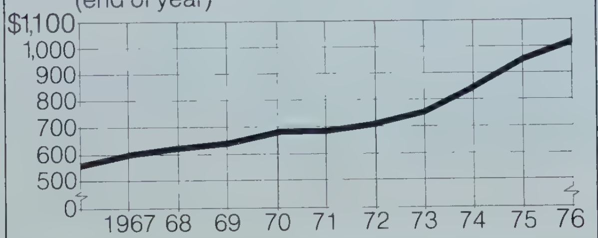
(16) Comparative figures—

Certain of the 1975 figures have been restated to conform with the presentation followed in 1976.

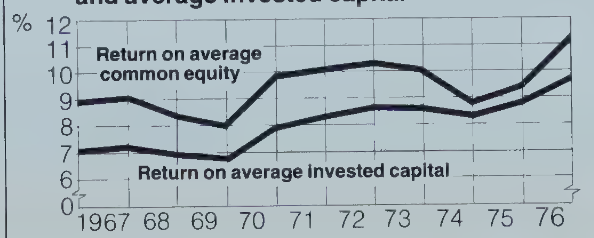
THE YEARS IN REVIEW

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Financial Position at December 31 (in thousands)										
Telephone plant	**$427,211**	$378,857	$323,444	$267,627	$230,123	$205,984	$190,400	$174,552	$160,820	$148,361
Accumulated depreciation	**95,453**	85,149	73,706	66,462	59,465	51,758	46,892	42,767	38,490	36,269
Investments	**5,149**	4,430	4,083	6,608	6,379	3,588	3,548	2,772	2,722	5,811
Current assets	**18,523**	22,214	16,107	11,449	8,875	9,921	7,548	7,004	6,893	6,834
Deferred charges	**3,725**	2,947	2,249	1,635	1,433	1,091	953	705	519	1,034
Shareholders' Equity	**140,026**	120,177	100,892	88,600	84,541	72,104	68,957	65,942	64,295	62,726
Long-term debt	**155,234**	150,164	125,000	95,690	74,700	72,150	65,650	55,650	51,000	46,000
Current liabilities	**17,247**	13,712	12,860	9,933	7,113	5,220	5,788	6,795	4,584	5,867
Deferred credits	**46,648**	39,246	33,425	26,634	20,991	19,352	15,162	13,879	12,585	11,178
Income (in thousands)										
Operating revenues and extraordinary items	**$111,695**	$ 90,621	$ 73,469	$ 62,153	$ 54,892	$ 48,325	$ 43,986	$ 38,390	$ 35,208	$ 32,334
Operating expenses and other taxes	**74,754**	62,484	50,806	41,180	35,845	30,877	27,674	25,231	22,485	20,720
Other income	**1,760**	2,249	1,381	995	810	675	567	314	435	402
Interest	**14,056**	11,677	8,473	6,024	5,076	4,574	3,758	2,958	2,538	2,262
Income taxes	**11,224**	8,141	7,275	7,530	6,650	6,401	6,514	5,282	5,295	4,774
Net income	**13,421**	10,568	8,296	8,414	8,131	7,148	6,607	5,233	5,325	4,980
Statistics — at December 31										
Telephone plant per telephone	**$ 1,029**	$ 965	$ 854	$ 766	$ 711	$ 692	$ 682	$ 648	$ 627	$ 609
Equity per common share	**$ 19.79**	$ 19.98	$ 19.66	$ 19.43	$ 18.84	$ 18.19	$ 17.64	$ 17.10	$ 16.88	$ 16.66
Embedded debt cost	**9.2%**	8.8%	8.2%	7.6%	7.3%	6.8%	6.1%	5.4%	5.1%	5.1%
Long-term debt % total invested capital	**52.6%**	55.6%	55.3%	51.9%	46.9%	50.0%	48.8%	45.8%	44.2%	42.3%
Employees	**3,447**	3,526	3,466	3,152	2,877	2,649	2,529	2,469	2,474	2,632
Telephones in service	**415,125**	392,441	378,823	349,590	323,762	297,877	279,268	269,211	256,388	243,502
Dial telephones	**100%**	98.6%	98.1%	96.0%	94.9%	92.1%	90.8%	90.5%	90.1%	87.9%
Statistics — for year										
Earnings per common share	**$ 2.27**	$ 1.89	$ 1.75	$ 1.94	$ 1.94	$ 1.83	$ 1.71	$ 1.37	$ 1.41	$ 1.51
Dividends per common share	**$ 1.60**	$ 1.30	$ 1.30	$ 1.26	$ 1.21	$ 1.20	$ 1.10	$ 1.10	$ 1.10	$ 1.10
Times bond interest earned — before taxes	**2.9**	3.0	3.2	4.1	4.1	4.3	5.1	5.2	5.7	5.5
Times bond interest earned — after taxes	**2.1**	2.2	2.3	2.7	2.7	2.8	3.1	3.2	3.4	3.3
Return on average invested capital	**9.8%**	8.9%	8.4%	8.6%	8.7%	8.4%	8.0%	6.9%	7.0%	7.3%
Return on rate base	**8.0%**	7.4%	6.7%	7.4%	7.6%	7.4%	7.3%	6.2%	6.2%	6.4%
Return on average common equity	**11.3%**	9.5%	8.9%	10.1%	10.4%	10.2%	9.9%	8.1%	8.4%	9.1%
Construction program expenditures (in thousands)	**$ 62,635**	$ 64,476	$ 63,889	$ 42,619	$ 27,912	$ 21,518	$ 22,606	$ 17,748	$ 19,166	$ 21,851
Average common share (in thousands)	**4,574**	4,110	4,024	3,961	3,907	3,854	3,796	3,743	3,698	3,232
Salaries and wages (in thousands)	**$ 44,365**	$ 35,263	$ 30,701	$ 24,651	$ 20,968	$ 17,724	$ 15,684	$ 14,001	$ 12,851	$ 11,852
Average daily toll messages (in thousands)	**87**	82	73	63	55	48	42	38	36	33

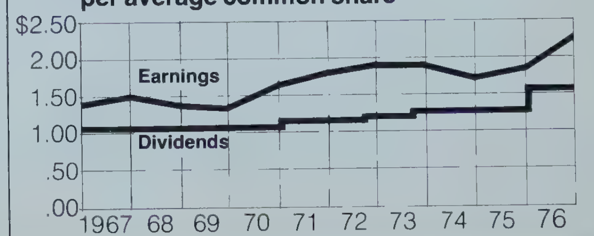
Telephone plant per telephone
(end of year)



Rates of return on average common equity and average invested capital



Earnings and dividends per average common share



Maritime Telegraph & Telephone Company Limited

DIRECTORS

Garnet L. Angus
President
C.L. Angus Real Estate and Appraisals Ltd.
Amherst

A. Gordon Archibald
Chairman of the Board
Maritime Telegraph & Telephone Co., Ltd.
Halifax

+**Donald F. Archibald**
President
Archibald Farms Limited
Port Willams

+**Harry Bowler**
Vice-President (Finance)
Bell Canada
Montreal

D. Andrew Eisenhauer
President
Atlantic Bridge Co., Ltd.
Lunenburg

The Hon. Clarence L. Gosse, M.D.
Lieutenant-Governor
Province of Nova Scotia
Halifax

Frederick E. Ibey
Executive Vice-President (Operations)
Bell Canada
Montreal
(Appointed April 26)

Seymour W. Kenney
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H.D. MacLeod Agency, Ltd.
Yarmouth

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Vice-President (Academic)
St. Francis Xavier University
Antigonish

+**Donald W. Myers**
Deputy Coordinator
CASE Nova Scotia
Federal Business Development Bank
Halifax

+**George C. Piercey**
President and Chief Executive Officer
Nova Scotia Savings and Loan Company
Halifax

Sidney A. Reeves
President & General Manager
Maritime Builders Limited
Sydney

Struan Robertson
President and Chief Executive Officer
Maritime Telegraph & Telephone Co., Ltd.
Halifax

Percy J. Smith
Vice-President
Great Eastern Corporation Ltd.
Halifax

Charles E. Stanfield
Director
Maritime Telegraph & Telephone Co., Ltd.
Halifax

James C. Thackray
President
Bell Canada
Montreal
(resigned April 26)

OFFICERS

A. Gordon Archibald
Chairman of the Board

Struan Robertson
President and Chief Executive Officer

D. Nelson Braid
Vice-President (Operations)

Ivan E. H. Duvar
Vice-President (Planning)

Edward J. Hicks
Vice-President (Finance)

Donald B. Quinn
Secretary-Treasurer

David S. Inkpen
Comptroller

Kathryn E. Watt
Assistant Secretary

+Member of Audit Committee

OPERATIONS

G. Donald Robb
General Plant Manager

Glen H. Geldert
Chief Engineer

Murray W. Wallace
General Commercial Manager

Herbert C. Kingsbury
General Traffic Manager

M. John McGrath
General Marketing Manager

David H. Hills
Business Information Systems Manager

Ernest C. Hicks
General Organization Development Manager

Philip G. Henderson
General Corporate Development Manager

Donald R. Archibald
General Services Manager

John R. Gale
General Information Manager

Stephen E. Jefferson
Executive Assistant (Trans-Canada)

Harry W. Dacey
General Personnel Manager

Printed in Nova Scotia

MARITIME TELEGRAPH & TELEPHONE COMPANY LIMITED

To the Shareholders:

On July 27, 1976 the Company entered into an agreement with its underwriters for the sale of 1,000,000 common shares at $17.50 per share. Terms and conditions of the share issue have been approved by the Board of Commissioners of Public Utilities for Nova Scotia.

Proceeds from the issue will be used to fund, in part, the $64 million capital expenditures this year to continue the Company's program of telecommunications growth and service improvements throughout Nova Scotia. This year to date has required capital expenditures of $32.2 million to provide additional network capacity to carry increased volumes; to install additional telephones and related equipment to meet increased demand; and to continue service improvements including the dial conversion, all-DDD program.

A milestone was achieved in recent weeks with the installation of the 400,000th telephone. There are over 401,057 telephones in service, an increase of four per cent over this time a year ago. The volume of long distance calling for the period, while close to six per cent greater than a year ago, has not however increased at the high rates experienced in recent years.

Operating revenues on an unconsolidated basis for the first six months increased just over $12 million to $55 million, while expenses increased $7.1 million to $36 million. Rate of return on average invested capital was 10.1 per cent, compared to 8.7 per cent for the same period a year ago; return on average common equity was 12.6 per cent compared to 9.1 per cent; earnings per average common share for the period were $1.28, up from 90 cents. It is anticipated that the return on common equity for the year will be about 12 per cent.

Yours truly,

Struan Robertson

Halifax, N.S.
July 30, 1976

Struan Robertson
President & Chief
Executive Officer

SIX MONTH GROWTH
(Unconsolidated)
(Compared to same period last year)

LONG DISTANCE CALLS
15,166,172 — up 5.8%

SALARIES AND WAGES
$21,246,658 — up 28.2%

TELEPHONES IN SERVICE — June 30TH
401,057 — up 3.7%

EMPLOYEES — JUNE 30TH
3,677 — up 0.6%

MARITIME TELEGRAPH & TELEPHONE COMPANY LTD

Six Month Report

TO JUNE 30th 1976

MARITIME TELEGRAPH & TELEPHONE COMPANY LTD

Consolidated Financial Position Statement (Condensed)

		(Thousands of Dollars) As at June 30th	
		1976*	1975
		$	$
Telephone plant		**447,011**	395,784
Accumulated depreciation		**97,952**	85,205
Investments		**907**	906
Current assets		**18,492**	16,169
Deferred charges		**4,132**	4,002
Shareholders' equity	— Preferred	**35,968**	37,266
	— Common	**85,928**	81,836
Minority interest in subsidiary companies			
	— Preference shares	**5,050**	5,050
	— Common equity	**3,342**	3,153
Long-term debt	— First mortgage bonds	**168,614**	141,114
	— Bank and other notes	**8,390**	7,520
Current liabilities		**16,758**	14,125
Deferred credits		**48,540**	41,592

Consolidated Interim Income Statement

	(Thousands of Dollars) Three Months Ended June 30th		Six Months Ended June 30th	
	1976*	1975	**1976***	1975
	$	$	**$**	$
Operating revenues	**30,392**	24,264	**60,384**	47,162
Operating expenses and other taxes (Notes 1 and 3)	**20,407**	16,613	**40,160**	32,544
	9,985	7,651	**20,224**	14,618
Other income	**451**	579	**947**	981
Income before interest and income taxes	**10,436**	8,230	**21,171**	15,599
Interest	**3,966**	3,070	**7,717**	6,137
	6,470	5,160	**13,454**	9,462
Income taxes (Note 2)	**2,937**	2,259	**6,107**	4,202
Income before minority interest	**3,533**	2,901	**7,347**	5,260
Minority interest	**223**	191	**428**	348
Net income	**3,310**	2,710	**6,919**	4,912
Dividends on preferred shares	**770**	830	**1,543**	1,221
Net income applicable to common shares	**2,540**	1,880	**5,376**	3,691
Earnings per average common share	**$ .61**	$ .46	**$ 1.28**	$ .90
Average number of common shares outstanding	**4,197,948**	4,110,403	**4,197,659**	4,110,244
(Note 1) Includes depreciation of	**$ 5,635**	$ 4,672	**$ 11,104**	$ 9,190
(Note 2) Consists of: Income taxes payable	**$ 956**	$ 468	**$ 2,180**	$ 629
Income taxes deferred	**$ 1,981**	$ 1,791	**$ 3,927**	$ 3,573

(Note 3)
The Company will apply in the year 1976 to the Nova Scotia Board of Commissioners of Public Utilities for a revision to its depreciation rates; such rates to be effective January 1, 1976. The revised rates, if approved, will result in an increase in depreciation expense of $53,000 for the three months ended June 30, 1976 and $104,000 for the six months ended June 30, 1976. Earnings per share will decrease from $.61 to $.60 and from $1.28 to $1.27 respectively. Similarly, depreciation rates approved in December of 1975 effective January 1, 1975 resulted in an increase in depreciation expense of $311,000 for the three months ended June 30, 1975 and $614,000 for the six months ended June 30, 1975. Earnings per share decreased from $.46 to $.42 and from $.90 to $.82 respectively.

Consolidated Statement of Changes in Financial Position

	(Thousands of Dollars) Six Months Ended June 30th	
	1976*	1975
	$	$
SOURCE OF FUNDS:		
Internal —		
Operating revenues and other income	**61,331**	48,143
Less charges requiring working capital	**41,199**	32,363
Total internal — from operations	**20,132**	15,780
External —		
Other	**479**	—
Preferred stock	**—**	17,500
First mortgage bonds	**27,500**	28,500
Short term investments matured	**3,187**	—
Bank and other notes	**8,390**	7,520
Employees' stock savings plan	**711**	567
Decrease in working capital	**7,030**	—
Total external	**47,297**	54,087
Total sources of funds	**67,429**	69,867
APPLICATION OF FUNDS:		
Redemption of first mortgage bonds	**—**	11,636
Preferred stock purchased for cancellation	**340**	340
Repayment of bank and other notes	**26,840**	13,473
Dividends	**4,901**	3,893
Dividends to minority shareholders	**295**	275
Increase in materials inventory	**2,467**	1,080
Other	**3,187**	218
Increase in working capital	**—**	138
Total application of funds (other than construction)	**38,030**	31,053
Total funds provided for construction	**29,399**	38,814
FUNDS USED FOR CONSTRUCTION:		
New telephone plant added	**34,091**	41,903
Cost of removing old plant	**707**	569
Construction program expenditures	**34,798**	42,472
Less charges not requiring working capital		
— Interest, pensions and expenses credited to income	**2,477**	2,294
— Salvage	**2,746**	1,210
— Other	**176**	154
	5,399	3,658
Total funds used for construction	**29,399**	38,814

*Unaudited